

U.S. EXPORT POLICY

A REPORT

SUBMITTED BY THE

SUBCOMMITTEE ON INTERNATIONAL
FINANCE

TO THE

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

UNITED STATES SENATE



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LETTER OF TRANSMITTAL

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL FINANCE,
March 8, 1979.

Hon. WILLIAM PROXMIRE,
Chairman, Committee on Banking, Housing, and Urban Affairs,
Dirksen Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: I transmit herewith a report on United States export policy from the Subcommittee on International Finance. The report contains findings and recommendations based on the Subcommittee's year-long study of export policy which included extensive hearings on the subject.

The report should be of considerable interest to the general public as well as our colleagues. Accordingly, I request that it be made available in the form of a committee print.

Sincerely,

ADLAI E. STEVENSON.

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U.S. EXPORT POLICY

INTRODUCTION

Senator Adlai E. Stevenson, Chairman of the Subcommittee on International Finance, announced on January 10, 1977, a study of U.S. export policy to be conducted by the Subcommittee. The study was prompted by the rapidly mounting trade deficit and evidence that the competitiveness of United States industry in international trade and domestic markets was declining. The Subcommittee held 11 days of hearings on export policy between February and May and received testimony from witnesses from the Executive branch, industry, agriculture, labor and academic and research institutions. This report summarizes the Subcommittee's findings and makes recommendations for insuring the competitiveness of U.S. agriculture and industry in world markets.

The mammoth trade deficit has hurt the U.S. economy in many ways. It has exerted downward pressure on the exchange rate, which in turn has eroded the role of the dollar as an international unit of value, undermined the confidence of dollar holders, and prompted flight from the dollar.

Second, the deficit has had a significant inflationary impact on the U.S. economy. The increasing prices of imports as the dollar depreciates—and corresponding price increases by domestic producers of import-competing goods—spur inflation. The Treasury Department estimated in February 1978 that the first-round direct effect on the Consumer Price Index of a one percent depreciation of the dollar was only about $2\frac{1}{2}$ hundredths of one percent (.025 percent).¹ But in testimony before the Senate Banking Committee in November, Charles Schultze, Chairman of the Council of Economic Advisors, estimated that the CPI goes up one to one and one-half percent for every ten percent devaluation of the dollar.² Schultze's estimate, which includes effects on wholesale prices and oil and raw materials imports, as well as the tendency for U.S. producers to match import price increases, is more accurate.

Third, the trade deficit is associated with job loss in import-competing industries and a slow rate of job increase in the export sector of the economy. A continuing trade deficit represents a substantial job shortfall on the export side. An estimated 40,000 jobs are created by a billion dollars of additional exports; if the United States were to eliminate its trade deficit by increasing its exports by \$30 billion to match its imports, 1.2 million new American jobs could be formed.

Fourth, the slack in the economy created by a serious trade deficit and lagging export performance requires increased fiscal stimulus in

¹ See *Export Policy* hearings, Part 1, p. 15.

² Senate Banking, Housing, and Urban Affairs Committee hearing "The President's New Anti-Inflation Program," November 3, 1978, p. 42.

order to keep the economy growing, in other words, a larger Federal budget deficit. Each \$1 billion in exports foregone represents a loss of \$2 billion in GNP and \$400 million in Federal tax revenue. Reducing the trade deficit reduces the need for deficit spending by the Federal Government.

Unfortunately, the deficit may not be a temporary aberration. The "J-Curve" effect predicts that exchange rate adjustment ensures trade adjustment within one or two years. However, delayed appreciation of surplus country currencies, relatively slow growth rates in Europe and Japan and high U.S. oil imports have exacerbated the U.S. deficit and slowed adjustment.

A more fundamental problem is the extent to which the trade deficit reflects underlying changes in the U.S. competitive position which are not self-correcting. The rate of increase in productivity has been declining in the United States and is now much lower than in most other developed countries. Capital formation in the U.S. has also fallen below that of our competitors. Innovation is more difficult to measure, but many indicators suggest the United States is losing ground here as well. Trade statistics reveal that the U.S. is now facing increased international competition in high technology fields where U.S. products have been dominant for decades. A trade deficit resulting from such long-term changes in U.S. competitiveness is not susceptible to classical trade adjustment mechanisms.

The Subcommittee hearings were organized into eight parts:

1. The effect of floating exchange rates on U.S. exports and the trade balance;
2. Trends in the competitiveness of U.S. exports in specific product and market sectors;
3. Foreign government policies and programs to support exports;
4. The Export-Import Bank and the financing of U.S. exports;
5. U.S. agricultural export policies;
6. U.S. Government programs and facilities designed to support exports;
7. U.S. high technology exports; and
8. Foreign barriers to U.S. exports.

All the hearings have been printed. The chapters of this report correspond to the subjects covered in the hearings.

CHAPTER 1. THE EFFECT OF FLOATING EXCHANGE RATES ON U.S. EXPORTS

Exchange rate depreciation of the U.S. dollar has failed to yield an improved trade balance. The explanations are many. First, depreciation of the dollar relative to the currencies of major trading partners of the United States has been modest until recently. Morgan Guaranty Trust calculates the overall change in the real exchange rate of the dollar from March, 1973 to September, 1977 to be negligible. The dollar remained at its March, 1973 level until mid-1975, then appreciated through late 1977. Thus, for a two-year period the dollar was actually about 5 percent above its trade-weighted level of March, 1973. Dollar depreciation relative to 1973 levels is a recent phenomenon.³

³ The Federal Reserve estimated that the dollar's exchange value on a trade-weighted basis was slightly above the level of March, 1973 in early 1978. The dollar reached its peak value in June, 1976, 10% above its level in March, 1973, declining slightly from June, 1976 to September, 1977 and then experienced a rather sharp 7% decrease from September, 1977 through January, 1978.

The worsening of the trade balance which accompanied the dollar depreciation is partially accounted for by the "J-Curve" effect. Currency depreciation raises the price of imported goods and services already ordered, thereby increasing the value of imports. Exports are concomitantly reduced in value until increases in quantities exported can be realized. Thus, during the first six to nine months following depreciation of the dollar the U.S. trade deficit can be expected to worsen.

The Treasury Department estimated the lag between movement in the exchange rate and adjustment in the trade balance to be about eighteen months. The Federal Reserve estimated the full impact of exchange rate depreciation on exports occurs over a period of two years. Thus, the depreciation which occurred in late 1977 and early 1978 cannot be expected to result in a dramatically improved U.S. trade balance until late 1979.

However, the dollar has been subject to additional and accelerated depreciation in late 1978. The initial negative "J-Curve" effects of "new" depreciation may overwhelm the positive effects of the "old" depreciation. Continuous currency depreciation may create effects not accounted for by the "J-Curve" theory.⁴

Additionally, the failure of the U.S. trade balance to adjust rapidly to exchange rate depreciation could be due to adverse movements in relative inflation rates between the United States and its principal competitors in export markets. Most studies agree, however, that U.S. price competitiveness has improved recently. An index of relative export prices developed by Chase Econometrics shows that U.S. export prices reached a relative low point of 92.6 in 1973, rose through 1976 (when they exceeded 100 on the index), and declined to a level of 98.4 in 1977. Prices are expected to decrease further to about 91.7 by 1979, putting U.S. producers in their most competitive price position since 1973.⁵

The recent improvement in the price competitiveness of U.S. exports is due to the combined effects of dollar depreciation and relatively lower inflation than in most major foreign countries. However, some trade surplus countries, Germany and Switzerland in particular, have had lower inflation than the United States, which has offset somewhat the appreciation of their currencies relative to the dollar. If inflation accelerates in the United States, much of the gain in international price competitiveness would be wiped out.

U.S. trade performance over the past few years seems broadly related to change in price competitiveness arising from relative inflation and movements in exchange rates. Improved U.S. price competitiveness in the period 1971 through 1973, attributable primarily to the devaluation of the dollar, contributed to the substantial export surplus in 1974 and 1975. Correspondingly, deteriorating U.S. price competitiveness during 1975 and 1976 was a factor in the massive trade deficits of 1977 and 1978.

⁴ Economists disagree on the effectiveness of the "J-Curve" phenomenon. Dr. Lawrence B. Krause of the Brookings Institution in testimony before the Subcommittee on February 6, 1978 contended current dollar depreciation would lead in time to improved U.S. trade performance, but Tilford C. Gaines of Manufacturers Hanover Trust Company questioned the effects of exchange rate depreciation when rates tend to cycle or move up and down episodically. Gaines suggested only stable depreciation over a finite period of time affected trade balances. See Part 1 of the hearings on Export Policy held by the Subcommittee on International Finance, pp. 91-109.

⁵ See testimony of John F. Norris, Chase Econometrics Association, Inc. *Export Policy* hearings, Part 1, pp. 124-126.

The U.S. lost competitiveness in relative export prices during the period 1975 through early 1977 as the exchange rate remained at an artificially high level while U.S. inflation was in the middle range for industrial countries. Once J-Curve effects are absorbed, increased price competitiveness can be expected to improve trade and current account balances. The Treasury Department estimates a one percent improvement in international price competitiveness produces an increase of $\frac{1}{2}$ to 1 billion dollars in U.S. exports when the improvement becomes fully effective.

Another factor in the trade deficit is the difference in growth rates between the United States and the principal foreign industrial countries. Anthony M. Solomon, Under Secretary of the Treasury for Monetary Affairs testified before the Subcommittee that differences in growth rates have tended to swamp the effects of exchange rates and relative price competitiveness. The U.S. trade surplus in 1975 can be largely accounted for by the relatively low growth rate in the United States compared to that in Europe. The relatively high rate of growth in the United States in 1977 and 1978 relative to that abroad may be the principal factor accounting for the large trade deficit. Convergence in relative growth rates will be necessary in order for improved price competitiveness to have its full effect on the trade balance.

Economist Rudiger Dornbusch of the Massachusetts Institute of Technology cautioned, however, that the difference in income elasticities of exports between the U.S. and its principal competitors is so great and so unfavorable to the U.S. that foreign economies would have to grow much faster than the U.S. economy in order for the U.S. trade deficit to be reduced. Dornbusch noted that foreign growth rates are not likely to exceed the U.S. rate substantially, and concluded an improvement in U.S. trade competitiveness is required "not only to close the present trade gap but in fact to prevent it from widening."⁶

Improvement in price competitiveness and convergence in relative growth rates may reduce the trade deficit, but export levels may be determined more by government policies and non-price considerations than market-determined export prices. The principal trade competitors of the United States—Germany and Japan—pursue policies which systematically counteract improvements in price competitiveness by U.S. suppliers. Furthermore, the structure of U.S. trade, especially on the export side, may minimize sensitivity to price considerations.

The contention that the Germans and the Japanese, as well as the Swiss, the Dutch and others pursue policies designed to maintain their trade surpluses, is a familiar one. The export orientation of their economies makes exchange rate stabilization and policies to preserve comparative advantage in export markets mandatory. Thus, if the exchange rate begins to move upward, monetary authorities in these countries are likely to intervene in the markets to discourage further currency appreciation. At the same time, monetary and fiscal policy instruments are utilized to suppress the rate of inflation, thereby offsetting movements in the exchange rate to the largest possible degree.

Japan, Germany and a number of other countries place such emphasis upon export performance that they are willing to subsidize

⁶ Rudiger Dornbusch, "Flexible Exchange Rates and Macro-economic Performance: The U.S. Since 1973" paper prepared for the Tripartite meeting, Tokyo, November 14-16, 1978, p. 23.

exports at the expense of their domestic economies. An apparent improvement in price competitiveness can be offset by indirect subsidies (for example, tax incentives), special loan facilities, or other measures. Other non-tariff barriers to U.S. exports, such as government purchases reserved for domestic firms, design specifications which favor domestic producers, and government-to-government trade arrangements are used extensively by Japan and the European Community. It remains to be seen whether Japan and the European Community will tolerate the trade implications of a significant improvement in U.S. export price competitiveness.

The composition of U.S. exports and the nature of export markets abroad according to Lawrence Fox of the National Association of Manufacturers, combine to make U.S. export performance relatively insensitive to price movements. The volume of agricultural exports, which account for roughly 20% of U.S. exports, does not automatically reflect relative price competitiveness. U.S. agricultural exports to the European Community, for example, benefit little from relative price improvements because the Community's Common Agricultural Policy is specifically designed to offset such movements.

Manufactured goods exports are presumably more sensitive to changes in price competitiveness, but the disappointing performance of the United States in manufacturing exports compared to Germany and Japan, whose currencies have been appreciating and whose price competitiveness vis-a-vis the United States has deteriorated, implies that trade in manufactured goods may be less price sensitive than is commonly assumed. Relative growth rates may explain somewhat the continuing high level of exports by Japan and Germany compared to the United States, but do not account for the entire phenomenon. Fox suggested international trade is increasingly characterized by marketing strategies and pricing policies which focus on market penetration or market share, and denigrate price considerations. Marginal pricing, and even dumping, may explain some of the relatively strong Japanese and German export performance. Fox cited data which indicated Japan and Germany emphasize export pricing strategies which cause export prices to rise more slowly than domestic prices, whereas in the case of United States exports the reverse appears to be true.

In the case of large capital items where the United States generally has a comparative price advantage, sales often hinge upon such variables as credit terms, offset purchases and non-monetary factors including government decisions to favor specific foreign enterprises or investors as trading partners. Much international trade also occurs within multinational corporations, and is less sensitive to price considerations than to corporate strategies.

The lack of improvement in the U.S. trade balance may also be partially accounted for by the foreign market composition of U.S. trade. The United States' principal foreign market is Canada, and there has been no relative price improvement for the United States in the Canadian market. In the case of most non-oil-producing developing countries, exchange rates have not changed relative to the dollar and improvement in U.S. price competitiveness relative to domestically produced goods in such countries has been minimal. U.S. export performance in third world markets relative to Japanese and German suppliers should improve with increased U.S. price competitiveness,

but there is little evidence of trade gains to date. Existing trade relationships, perceptions of quality, and assurances of timely delivery account for export success in many markets. Germany, Japan and Switzerland have reputations as dependable suppliers and have continued to export successfully despite deterioration in the price competitiveness of their products.

U.S. producers tend to be much less aggressive in exporting than are the Japanese and Europeans, in part because U.S. producers have fewer incentives to export. A large domestic economy and relatively good growth rates at home enable U.S. producers to expand production and enjoy profits through domestic consumption rather than relying upon exports. U.S. exporters also face more government-imposed disincentives, such as anti-trust, anti-bribery, anti-boycott and human rights restrictions and tighter controls on exports to communist countries.

In conclusion, it is unrealistic to expect rapid and significant improvement in the U.S. trade balance due to exchange rate depreciation, because: (1) dollar depreciation will improve U.S. price competitiveness only if reinforced by relatively low U.S. inflation rates; (2) trade flows will respond to relative price changes only belatedly; (3) the U.S. deficit will decline only if growth rates are higher abroad than in the U.S.; and (4) U.S. trade performance is not closely related to relative price considerations for structural reasons.

CHAPTER 2.—TRENDS IN U.S. EXPORT COMPETITIVENESS IN SPECIFIC PRODUCT AND MARKET SECTORS

United States' export growth has been negligible since 1974. Export growth in nominal terms has been 7 percent per annum compared to a 13½ percent rate of increase for imports during the same period. Not only has U.S. export growth been slowing but what growth has occurred has been due entirely to price increases rather than greater sales volume. In real terms U.S. exports in 1977 were only one percent greater than in 1974. The Subcommittee's second hearing addressed the question whether the lack of real U.S. export growth reflected declining competitiveness of U.S. non-agricultural products in international markets.

Slow growth in U.S. exports is attributable in part to slow economic growth rates in traditional markets for U.S. exports. The Canadian market, the largest single market for U.S. exports, has expanded very slowly. Japan, also a large market, has grown slowly in the last two years, as have some of the major non-oil producing LDC markets—Brazil, Mexico and India—which would normally account for about 30 percent of U.S. shipments to non-oil-exporting LDCs. Thus, the U.S. share of world exports is growing more slowly than that of other industrial countries in part because the countries to which we traditionally sell have had slower growth rates than countries to which our competitors traditionally sell.

At the same time, however, the United States has failed to expand its exports in the faster-growing markets at the same pace competitors have. The United States experienced declining market shares in 1977 in exports to Japan, Italy, the Netherlands, several Latin American countries, India and Korea, as well as the important OPEC markets.

An analysis of market shares conducted by C. Michael Aho and Richard Carney indicates a disturbing pattern. Aho and Carney measured competitiveness by comparing U.S. exports to the exports of other countries in overseas markets. They examined the exports of nine OECD countries in fourteen different regions for three periods, 1965 to 1970, 1970 to 1973, and 1973 to 1976. During each of the time periods analyzed the United States lost market shares relative to Japan. The depreciation of the dollar relative to the Japanese yen did not enable the United States to recover its earlier market share of total manufactured exports. U.S. losses were particularly large in exports to the European Common Market countries.

The fastest growing importing region in the world in the last few years has been the Middle East. OECD countries' exports to the Middle East increased by more than six-fold during the period from 1970 through 1976. The U.S., Japan and Germany all increased their shares of total manufactured exports during that period, but the largest gains were made by Japan.

Relative differences in growth rates cannot explain the superior Japanese market performance in either the European Community countries or the Middle East; in both cases Japan and the United States were on the same relative competitive basis. The difference in exchange rates and price movements between the Japanese exports and U.S. exports should have led to superior U.S. export performance, but it did not.

As U.S. price competitiveness improves there is some hope for an increased U.S. market share in major markets, but non-price factors could be critical. Salesmanship, market familiarity, reliable delivery schedules, after-sales-service, product-quality and credit terms can determine the success of efforts to exploit a relative price advantage. The United States is facing increasing competition across a broader range of products, including capital goods and high technology products where the U.S. has traditionally been dominant, and must make new efforts to see that U.S. products are competitive and that U.S. Government policies do not reduce export competitiveness.

A deteriorating trend in U.S. exports is evident from an analysis of exports of research intensive products. Historically, the United States and the United Kingdom have exported products intensive in capital and research-and-development expenditures. However, in recent years both countries have allocated a smaller proportion of their gross national product to investment than have Germany and Japan. They have also had lower growth rates of real investment. Aho and Carney examined trade patterns for research-and-development-intensive commodities such as chemicals, machinery and transport equipment, scientific instruments, and miscellaneous manufactures. They found between 1962 and 1970 the U.S. share of total OECD exports of these commodities declined from 27.6 percent to 21.7 percent. By 1976 it was down to 20.5 percent. The U.K.'s share decreased between 1962 and 1970 from 15.2 percent to 10.0 percent and has continued to decline to a low of 8.3 percent in 1976. The German share has remained stable, but the Japanese share has grown steadily since 1962. In 1970 the Japanese share was 9.9 percent; in 1976 it was 13.2 percent. The U.S. decline seems likely to continue unless research and development expenditures and capital investment increase.

In the past the United States has placed a low priority on export promotion, but this priority must change if the United States is to profit from new markets. The OPEC countries, some of the non-oil-producing developing countries and Japan, where major efforts are underway to remove trade barriers, offer market opportunities which the United States should exploit. Whether U.S. business responds will depend in part upon government efforts to involve additional U.S. firms in exporting, as well as to familiarize existing exporting firms with new export opportunities and to support all U.S. exporters strongly and consistently.

Structural factors rather than price or business cycle factors explain recent changes in the pattern of U.S. exports. In addition to the fact that the United States is less export-oriented and makes less effort to expand its exports than do foreign competitors, the United States' traditional leads in productivity and technological innovation have been lost. Investment is lower in the U.S. than in a number of other countries, and there is evidence U.S. industry is shifting investment from basic research to comparatively minor product and process development in the expectation of short-term returns. These trends suggest U.S. exports will lag even further in the future.

Improvements in U.S. price competitiveness via depreciation of the dollar and lower inflation can lead to improved export performance in a number of categories—especially consumer goods—but where exports depend on reliability, quality and servicing, and for products with high technology and capital inputs, greater price competitiveness alone is unlikely to lead to major increases in U.S. exports.

CHAPTER 3.—FOREIGN GOVERNMENT POLICIES AND PROGRAMS TO SUPPORT EXPORTS

Foreign government support for exports has contributed to the U.S. trade deficit. Mr. George Stathakis of the General Electric Company testified before the Subcommittee that the biggest obstacle to expanded U.S. exports is the help foreign trade competitors get from their governments.

Although fiscal and monetary policies are not generally regarded as efforts to support or subsidize exports; the restrained growth policies of Germany and Japan have been conducive to export growth, and these countries' sluggish domestic expansion has conversely blocked imports. Because the export sector is such a large part of these economies, adequate total growth can be maintained while pursuing policies to restrain inflation.

Industrial policies are an important element in export expansion for many countries. The industrial policies vary: Japan, France, and Italy rely extensively on planning mechanisms, but a number of other countries, including Germany, Sweden and Denmark, place far more emphasis on a favorable investment climate than on targeted industrial policies. Regional development schemes are also used to channel resources into industries with strong export potential.

The effectiveness of cooperation between government and industry in selecting target industries and developing them is best exemplified by Japan. The post World War II rise of the Japanese steel and ship-building industries to positions of world market prominence was the

result of carefully planned investment and export promotion strategies. Since 1972, a government coordinated effort to boost the Japanese computer industry has been similarly successful. Another impressive aspect of Japanese industrial planning is the ability to react to over-capacity in certain industries.

A number of other countries have attempted to "target" industries with export potential. Taiwan, Hong Kong and South Korea have developed their textile and footwear industries, and in the process have supplanted their model, Japan, as a world supplier of these commodities.

Research and development in Japan and Europe is often directed toward products with export possibilities. The Europeans have worked cooperatively to increase their share of the international commercial aircraft market, at the expense of the U.S. The Japanese government has coordinated research in computers and semiconductor technology with an eye toward developing a major new export industry.

Although studies conducted to date do not seem to indicate significant trade differences arising from different applications of environmental standards or anti-trust laws, a recent study conducted for the Department of Commerce suggests that the more vigorous environmental standards in the United States may have an adverse effect on productivity in this country relative to other OECD countries which, of course, could have consequences for export growth in the future. The United States also has the most stringent anti-trust legislation; Japan's large trading companies face no anti-trust problems.⁷

Many countries use remission of indirect taxes to stimulate exports. The recent Supreme Court decision in the Zenith case confirms that such rebates do not violate U.S. countervailing duty statutes. A number of countries also have a very low rate of taxation on the income of foreign subsidiaries of domestic companies, which enables a company to establish a sales subsidiary overseas and avoid practically all taxation on export sales. The United States does not permit such differential tax treatment.

Japan, additionally, has a tax incentive system for exporters which was modified recently to emphasize incentives for smaller and medium-sized exporters. Many developing countries rely on tax incentives to stimulate exports to an even larger degree than do the developed countries.

The most important non-tax incentives are in the area of financing for exports. Most countries provide some form of official export financing, and the French, Japanese and British use supplemental non-tax incentives as well. Particularly noteworthy are the export financing incentives designed for small exporting firms in Germany, Japan, Italy and France.

Foreign governments often finance prefeasibility studies. In some cases this is complemented by government-to-government contact by top level government officials well versed in the project who assure the purchasing government that the bidding firm has full official support.

Japanese companies bidding on major construction projects can present a single, combined price offer. U.S. anti-trust statutes preclude

⁷ The incentives offered by foreign governments to their exporters are cataloged by the Special Committee on U.S. Exports in Part III of the *Export Policy* hearings, pp. 107-243.

such cooperation by U.S. firms. Cheaper export shipping is another factor in the superior export performance of our competitors. Freight rates for ocean shipping average 32% higher for U.S. exports than for U.S. imports. Even worse, rates on shipments to developing countries paid by U.S. exporters average 100% more than rates paid by major developed country competitors. Japan has a 300% freight rate advantage over the United States on shipments to third countries. Organized foreign exporter representatives in Europe and the Far East use cartel-like power to keep rates down. Another "home-grown" problem is that official U.S. Government cargo often crowds out non-Government cargo on outbound U.S. Flag carriers, allowing carriers to exact premium rates for the scarce remaining space.

The United States Government spends less each year to promote manufactured exports than do the governments of Japan, the United Kingdom, Italy and France, but more than Canada and Germany. Comparisons for fiscal year 1976 can be made on the basis of amounts spent on export promotion for each million dollars of manufactured exports. On that basis, the United States spends \$340; Canada and Germany, \$140; France and Japan spend about \$600; Italy spends \$1,400 and the United Kingdom \$2,500. The German figures are understated because German exports are promoted by trade associations and overseas German Chambers of Commerce which exporters are required to join and financially support. In the United States, about 1/100th of 1 percent of the federal budget is spent for export promotion. Other countries average about six times that amount.

In conclusion, foreign governments show great scope and flexibility in their policies and programs to support exports. The use of export expansion as a tool of domestic economic management is not only well understood and widely employed but shows impressive resilience in the face of economic changes which would otherwise lead to deteriorating trade balances.

CHAPTER 4.—THE EXPORT-IMPORT BANK AND U.S. EXPORT FINANCING

The Subcommittee held four days of hearings in March and April, 1978 on financing of non-agricultural exports and legislation to extend and enlarge the authority of the Export-Import Bank. The Subcommittee examined the deficiencies of private export financing, the growing foreign competition in official export financing, and proposals to strengthen both private and official U.S. export financing and to limit international credit competition.

The private sector finances most U.S. non-agricultural exports. The Export-Import Bank finances on the average only about 18 percent of manufactured goods exports and 21 percent of capital goods exports. But private financing is seldom available on fixed interest rate terms, or for periods longer than five years, and thus is often insufficient to support capital exports for large development projects abroad. Commercial export financing sources do not accept political risks and sometimes shy away from economic risks as well in developing countries.

Private export financing through smaller commercial banks and outside the major financial centers has been limited despite the intent of Congress to facilitate such financing when it passed the Edge Act in 1919 (Section 25a of the Federal Reserve Act). The Edge Act pro-

vided for Federal chartering of corporations "organized for the purpose of engaging in international or foreign banking." The Federal Reserve Board issued Regulation K (12 C.F.R. Part 211) the following year, giving Edge Act corporations "powers sufficiently broad to enable them to compete effectively with similar foreign-owned institutions and to afford to the United States exporter and importer . . . at all times a means of financing international trade" (211.1(b)(1)).

By early 1978 there were 115 Edge Act corporations in the United States, but statutory and regulatory limitations on Edge corporations retarded their role in financing U.S. exports. Chief among the legal restrictions on Edge Corporations were the following: (1) liabilities could not exceed 10 times capital; (2) a minimum 10 percent reserve was required even when not required of commercial banks; (3) Edges were not eligible for Federal Reserve membership; and (4) the conduct of any business in the U.S. except that "clearly related to international or foreign business" was prohibited (12 C.F.R. 211.1(b)(2)). Testimony received by the Subcommittee suggested modification of Edge Act provisions could facilitate the formation of Edge corporations by smaller and regional banks as well as enlarging the role of Edges in promoting U.S. exports.⁸

When the Banking Committee met to mark up the International Banking Act of 1978 Senator Adlai E. Stevenson proposed a series of amendments to the Edge Act. The amendments approved by the Committee and included in the Act adopted September 18, 1978, lifted the statutory restriction on the ratio of liabilities to capital and reserves; removed the discriminatory minimum reserve requirements; required the Federal Reserve Board to make recommendations which would permit Edges to become member banks; and expanded the permissible banking activities of Edges. Also, for the first time, non-banking corporations and foreign banks are permitted to form Edge Act corporations. Once the Stevenson amendments have been fully implemented by federal regulation, the use of Edge corporations to finance U.S. trade is expected to grow significantly.

The need to supplement private export financing with Eximbank programs will continue to grow as well, however. As researchers for the Congressional Research Service have noted:

The growing commercial rivalry among the developed countries and the increasing similarities in the price, quality and availability of their goods has meant that, in many cases, government financing arrangements have become a determining factor in some trade transactions. In the capital goods sector and the market for "big ticket" items in particular, it now often appears that contracts may go to the exporter who is able to arrange the most attractive financing for his sale.⁹

The Export-Import Bank is a U.S. Government agency originally created in 1934 to aid in financing and to facilitate U.S. exports. The Bank is directed to provide loans, guarantees and insurance for U.S. exports of goods and related services on terms and conditions competitive with those available to foreign competitors. The Bank in providing such export assistance is also directed to seek to minimize international competition in Government-supported export financing, to

⁸ See *Export Policy* hearings, Part 6, pp. 140-187.

⁹ *Export Stimulation Programs in the Major Industrial Countries*, p. 40.

judge whether there is a reasonable assurance the assistance will be repaid, to take into consideration the average cost of money to the Bank, and to supplement and encourage, but not compete with, private capital. The Bank must also take into account any serious adverse effect of its transactions on: (1) the competitive position of U.S. industry, (2) materials in short supply and (3) employment in the United States.

The Bank's programs include: (1) direct credits and financial guarantees for major capital goods exports requiring repayment periods of 5 years or more; (2) medium-term guarantees and discount loans to U.S. commercial banks and Cooperative Financing Facility loans to foreign financial institutions to finance capital goods exports; and (3) in conjunction with the Foreign Credit Insurance Association (FCIA), a group of private insurance companies, short-term and medium-term export insurance against political and commercial risks. The Private Export Funding Corporation (PEFCO), owned by U.S. banks and corporations, often participates in medium-term export financing together with Eximbank and commercial banks. Although the programs supported directly and indirectly by the Export-Import Bank are extensive, they frequently do not match those offered by foreign governments.

Foreign competitors support a greater percentage of their exports through official financing, and often provide more attractive terms and programs. For calendar years 1975 and 1976, Japan and France provided official export credit support for one-half their manufactured exports; the United Kingdom for one-fourth of its manufactured exports; Italy for one-eighth, and Canada, Germany and the United States for slightly over one-tenth of their manufactured exports.¹⁰ The United States Eximbank offers a smaller percentage of official credit (averaging 42 percent) for long-term export credits than do the official export credit agencies of the other six nations. Japan also provides local cost financing, which is not available from the U.S. Export-Import Bank.

Japan, Germany, France and Italy offer insurance against exchange rate fluctuations; the U.S. does not. The United Kingdom and France offer inflation indemnity insurance; the U.S. does not. In order to encourage exports of complete manufacturing plants, Japan is now offering performance bond insurance covering 70-90 percent of possible losses. The United Kingdom also provides performance bond insurance, which is said to benefit British contractors competing for Middle East construction projects.

Several foreign countries combine foreign aid programs and official export credit programs in order to provide low-interest long-term credits to developing countries. France, for example, offers "mixed credits" for as little as 3 percent interest and as long as 25 years. The United States not only does not offer mixed credits, but its bilateral assistance program has shrunk relative to other countries and been redirected toward projects which provide fewer opportunities for U.S. capital goods exports.

The Eximbank has managed to keep its long term credits competitive with those offered by foreign governments, but as interest rates

¹⁰ See *Export Policy* hearings, Part 4, p. 75. Table Submitted by the Department of the Treasury.

rise in the U.S., the Eximbank will become less competitive. Eximbank programs will also be hampered in fiscal year 1980 by budget limitations imposed by the President's Office of Management and Budget. Eximbank is the only official export credit agency, besides Canada's, which receives no annual appropriations, and is the only such agency subjected to annual legislated budget ceilings on its credit programs. Eximbank will exhaust its direct lending authority of \$3.6 billion before the end of fiscal year 1979. Authority for fiscal year 1980 has been set at \$4.1 billion by OMB, about one-third the anticipated demand for Eximbank credit.

Eximbank is also subject to political restrictions not imposed on the programs of foreign governments. Exports to communist countries are ineligible for Eximbank support unless the President has determined that support for exports to the country in question is in the national interest and, since 1974, that the country meets the stringent criteria for freedom of emigration set forth in the Jackson-Vanik Amendment to the Trade Act. Only Poland, Rumania, Yugoslavia and Hungary are currently eligible for Eximbank credits. Eximbank reviews export credits for human rights considerations as well, and upon the advice of the Department of State frequently holds up or denies credits for exports to countries with poor human rights records. In the case of South Africa, Congress adopted legislation in 1978 to deny Eximbank support for any export to the South African government and to any other purchaser, unless the Secretary of State certifies that such purchaser is observing the "Sullivan principles" on fair racial employment practices.

The Eximbank legislation reported by the Banking Committee in 1978 and subsequently incorporated in H.R. 14279 represents a significant step forward in official U.S. export financing. The Bank's authority was extended five years and its aggregate commitment authority was increased to \$40 billion, against which up to \$25 billion in guarantees and insurance may be charged at 25 percent of face value. The prenotification requirement was modified to increase the threshold from \$60 to \$100 million for credits to be submitted to Congress before final approval, and the review period during Congressional recesses was reduced to 35 calendar days.

Other important amendments to the Bank's charter included: the Chafee amendment providing that the Bank should not deny credit applications for non-financial or non-commercial considerations except where the President determines that such denial would be in the national interest and where such action would clearly and importantly advance U.S. policy in such areas as international terrorism, nuclear proliferation, environmental protection and human rights; the Stevenson amendment providing that the Secretary of the Treasury may authorize the Bank to assist U.S. producers to match official foreign credit support for exports to the United States when such foreign support exceeds international standards, and the Heinz amendment authorizing the Bank to provide financing competitive with that provided by foreign government agencies and authorizing the President to begin ministerial level negotiations to end foreign predatory export financing practices. The Bank's authority to finance agricultural and solar energy equipment exports was also expanded.

The advances achieved in the 1978 legislation are not sufficient to put U.S. exporters on an equal financing basis with foreign competitors. Political restrictions on Eximbank credit continue both with respect to communist countries and human rights violators. The Bank cannot match the mixed credit offers of foreign governments; new authority would be required to launch such financing. Finally, the effort to restrain international credit competition is foundering. Negotiations in 1978 to strengthen the international Arrangement on Guidelines for Officially Supported Export Credits collapsed because foreign governments refused U.S. proposals to place tighter limits on such support. The Export-Import Bank is not adequately equipped to meet the growing foreign competition in official export credits.

CHAPTER 5.—U.S. AGRICULTURAL EXPORT POLICIES¹¹

Agricultural exports are the mainstay of U.S. export performance, accounting for approximately 20 percent of total exports each year. Farm exports of \$24.4 billion in 1977 exceeded agricultural imports by \$10.8 billion. Without the net positive contribution of the agricultural sector, the total U.S. trade deficit in 1977 would have been \$41.8 billion instead of \$31 billion.

The agricultural trade surplus is important for the domestic economy. An estimated 1.2 million jobs in the farm sector result from exports. Moreover, every dollar earned through agricultural exports directly stimulates another dollar in domestic output.

The United States is the world's largest exporter of grains, wheat, rice, feed grains, soybeans, cotton and tobacco, and has expanded exports of livestock products and poultry in recent years. The U.S. share of the world grain market has increased in part as a result of greater exports to the Soviet Union and Eastern Europe.

But U.S. agricultural exports could be much greater than they are. Vast opportunities exist for expanded production at very nearly constant costs. Even without expanded production, surpluses are generally available for export in any given year. U.S. agricultural products remain highly competitive in terms of price and quality, but such considerations do not always determine success in agricultural trade. Treasury studies indicate "... the price elasticity of demand for U.S. goods varies considerably and a relatively large share of U.S. exports is accounted for by products with relatively low price elasticities of demand—agricultural products, raw materials and highly specialized capital equipment."¹²

A labyrinth of subsidies and protective devices for the agricultural sector throughout the world insulate real world agricultural export prices from movements in exchange rates. Devaluation of the dollar not only fails to increase the volume of U.S. agricultural exports, but may hurt U.S. farmers by reducing returns on foreign agricultural sales.

The United States cannot assume the continuation of its predominant position in world agricultural markets. U.S. soybean growers face growing foreign competition in soybeans, palm oil and related oil seed

¹¹ Part 5 of the Subcommittee's *Export Policy* hearings contains the record of a hearing on "Agricultural Export Policies" held on March 30, 1978 in Chicago, Illinois. Additional testimony and statements on agricultural exports are contained in: pt. 2, pp. 3-33, 193-216; pt. 3, pp. 244-250; pt. 8, pp. 1-23, 42-43, 150-175.

¹² See *Export Policy* hearings, Part 1, p. 6.

products. Expansion of Brazilian soybean production has enabled Brazil to capture a large share of the world market for soybeans and soybean meal. Expansion of Malaysian palm oil exports has cut into the U.S. export market for vegetable oil.

The United States is also facing increased competition in the areas of cotton and tobacco exports. The Soviet Union has taken a substantial share of the U.S. cotton market in Europe, and a number of developing countries are becoming important suppliers of cotton, including the Ivory Coast, Chad, Colombia, Turkey, Iran and Afghanistan. Korea, Brazil and Malawi have increased their tobacco exports.

The United States faces increasing competition in fresh and processed fruits and vegetable exports from Morocco and Israel. Taiwan has emerged as a major exporter of a number of horticultural products. Brazil has replaced the United States as the world's leading exporter of concentrated orange juice, and almost every Mediterranean country is now actively involved in exports of tomato products.

United States exports of livestock products such as hides and skins, tallow, greases and variety meats, are encountering strong competition from Australia, Canada and Southeast Asia.

The Department of Agriculture testified before the International Finance Subcommittee on February 23, 1978, that the principal factor affecting U.S. agricultural export sales is foreign tariff and non-tariff barriers to U.S. products. The European Community's Common Agricultural Policy, for example, provides for heavy subsidization of high-priced EEC wheat and flour to make them competitive in the world market. Even where subsidization is not formal, arrangements for grain marketing provide opportunities for monopoly pricing. Australia and Canada have wheat boards which control most aspects of wheat trading, including the pricing, financing and marketing terms for their exports.

The wheat boards in Canada and Australia are in a position to enter into long-term supply arrangements, and have done so with the People's Republic of China and the Soviet Union. Such arrangements presumably have included favorable pricing and financing for the buyers, but detailed information on the arrangements is not available in the United States.

The Canadian wheat board has a monopoly over Canadian wheat marketing, including transportation and exports. The Board finances its operations with bank credits guaranteed by the government. The Australian wheat board receives credit through the reserve bank of Australia. The wheat boards have full authority to set prices on all sales. By following the markets, they can determine what U.S. prices are likely to be, and offer their wheat at a lower price. There have been a number of examples of wheat board sales on concessional terms and with repayment periods of more than three years.

Canadian grain is also subsidized by favorable rail transportation rates for movement to export ports. The Australian wheat board charters its own bulk carriers, thereby enjoying lower freight costs, and the board follows a destination pricing scheme which enables Australian wheat to be competitive in any overseas market.

The European Community uses export subsidies to reduce its surpluses and strengthen prices, particularly in the Community's soft wheat market. Individual member countries of the European Com-

munity offer long-term credit and low interest rates to make grain prices even more attractive; financing is supplied through private banks operating under a government subsidy scheme.

Brazil has used an indirect export subsidy for soybean products. Brazil provides funds at preferential interest rates to exporters in proportion to their exports of soybean products. Exporters can relend the funds on the domestic Brazilian market at substantially higher interest rates and use the differential as a bonus with which they can reduce their prices to foreign buyers of soybean products. Exporters also received a government subsidy on domestic sales of soy products, which helps them to make a profit on overall operations. Brazil also provides a tax subsidy for all exports. Brazil has made various changes in its subsidy programs recently, but the basic system remains intact.

Rice exports have been subsidized by Japan, Thailand, Taiwan and the People's Republic of China. Information on export subsidies is limited, though, and the exact terms of various sales are difficult to confirm.

The efforts of many countries to preserve inefficient domestic production and the efforts of developing countries in particular to expand agricultural exports hamper U.S. export growth. Reductions in foreign import barriers and export subsidies is the major avenue through which U.S. agricultural exports could be increased. Dr. William R. Cline of the Brookings Institution testified before the Subcommittee that: "... foreign protection is much more severe than U.S. protection. Agricultural quotas in Japan and variable levies in Europe limit our exports . . . If the tariff equivalent of agricultural non-tariff barriers were cut by approximately 40%, U.S. agricultural exports would rise approximately \$500 million per year."¹³

Improved financing programs could also help boost U.S. agricultural exports. Other countries have greater flexibility in the kinds of credit they are able to offer in order to obtain foreign sales. The Department of Agriculture's Commodity Credit Corporation and concessional food aid under P.L. 480 Title I financed about 5.6 percent of U.S. agricultural exports in 1976.

Witnesses appearing before the Subcommittee supported extension of the maximum period for repayment of Commodity Credit Corporation (CCC) financing of U.S. agricultural exports from three years to ten years. They also recommended making presently ineligible non-market economy countries eligible for CCC credits. John W. Curry, President of the National Corn Growers Association, estimated corn exports alone would expand by 53% to approximately 2.9 billion bushels by 1981 if CCC credit were provided to all non-market economies.¹⁴ Curry and other witnesses recommended CCC financing of infra-structure projects to handle U.S. agricultural commodity imports in less developed countries. Witnesses agreed that expanded CCC credits should not be subjected to U.S. cargo preference requirements which would increase costs, induce delays and add to administrative complexity.

The Agricultural Export Trade Expansion Act passed by the 95th Congress should yield significant improvement in financing of U.S.

¹³ See *Export Policy* hearings, nt. 8, p. 26.

¹⁴ See *Export Policy* hearings, pt. 5, pp. 24-25.

agricultural exports. CCC support will be available on ten-year terms for limited purposes. Short-term credit will be available for the first time for exports to the People's Republic of China. The Department of Agriculture's Foreign Agricultural Service will be expanded and overseas representation upgraded. The Act closely parallels S. 3011, introduced by Senator Adlai E. Stevenson on April 27, 1978.

Expanding exports from the world's most efficient producer, rather than forcing U.S. taxpayers to subsidize decreased production and suffer inflated prices, makes sense in a world plagued by food shortages. The U.S. Government should strive to obtain greater and more stable access to world markets, and to provide U.S. agricultural producers with export support equal to that provided by other governments. By negotiating elimination of foreign tariff and non-tariff barriers the United States could increase beef exports to the EEC and Japan for example, by as much as 1,000 percent (current U.S. per capita beef consumption is nearly 18 times greater than beef consumption in Japan).

The United States faces increased competition in most foreign markets and products in the next decade, and should give increasing attention to measures which could reduce the production costs of U.S. agricultural products. The United States should also remove self-imposed export barriers, and may need to establish trading companies in the agricultural area which can compete with the wheat boards and grain boards of foreign competitors or empower the CCC to negotiate with nonmarket countries. Larger grain reserves may also be needed to enhance U.S. reliability as a supplier. But the principal necessity is a reduction of foreign barriers to U.S. agricultural exports.

CHAPTER 6.—U.S. GOVERNMENT PROGRAMS AND FACILITIES TO SUPPORT EXPORTS

A variety of U.S. Government programs and institutions are designed to help U.S. producers compete more effectively in world markets. However, the programs are uncoordinated, the institutions underutilized, and the overall effort insufficiently directed toward the exporters in greatest need of assistance.

The agency primarily responsible for trade promotion is the Industry and Trade Administration of the Department of Commerce. ITA attempts to educate potential exporters via media campaigns, regular publications, and extensive contacts with private export promotion institutions. It offers counseling services on exporting in general and advice on specific countries. In-depth reports on exporting techniques, prospects for particular industries and business conditions throughout the world are published regularly. Special reports on U.S. products with sales potential in key overseas markets are also distributed. Contact with foreign importers is encouraged through the distribution of lists of overseas buyers and recruitment of foreign buyers for trips to the United States.

Overseas product promotion is attempted via exhibitions at U.S. Trade Centers and international trade fairs. Counseling assistance and contact lists are provided to U.S. businessmen abroad, and market opportunities for new U.S. products are negotiated with major foreign department stores.

Despite the range of ITA activities, the programs are not so successful as they could be. Experienced firms are often the main beneficiaries of Commerce Department efforts, seeking assistance not because they need incentives to export, but to lower costs. Small firms and inexperienced exporters are often unaware of existing programs, or require specially tailored services the Department cannot provide. The export promotion programs have suffered a 14 percent reduction in real outlays over the past 7 years.

Overseas market information and direct assistance abroad (with languages, customs, etc.) are regarded by exporters as two of the most valuable services provided by the government, yet for these ITA must rely heavily on cooperation from State Department Commercial Officers stationed abroad. Despite the important role commercial sections play in the administration of Commerce Department programs abroad, Commerce has no control over the selection, assignment, promotion and support of Commercial Officers. Within the Foreign Service hierarchy commercial posts have little prestige, and morale problems have repeatedly been reported.

More serious than the inability of the Commerce Department to supervise administration of its overseas programs is the Department's lack of control over export policy. Export activities are subject to uncoordinated and sometimes conflicting demands from different government agencies. In the face of competition from countries like Japan and Germany which achieve considerable coordination in these matters, the inability of the U.S. to promote cooperative export expansion efforts and synchronize export policies is a serious disadvantage.

Legislative efforts to enable U.S. exporters to compete with foreign banks and cartels in overseas markets date back over sixty years. The Webb Pomerene Act (1918) exempts the formation and operation of Export Trade Associations from some prohibitions of the Sherman and Clayton Acts, but its provisions have been singularly underutilized. Only 28 such Associations exist today, accounting for less than 3% of U.S. exports.

The principal reason for the Act's failure is its vagueness. Because no definitive standards are prescribed for permissible activities, Webb associations have repeatedly been challenged by the Justice Department. Facing the likelihood of an antitrust investigation and with no clear idea of permissible activities and possible benefits under the Act, firms have been reluctant to form Export Trade Associations.

The 1919 amendments to the Federal Reserve Act known as the Edge Act sought to involve small and regional banks in the financing of exports, thereby stimulating export opportunities throughout the country. It allows banks to combine to form Edge corporations for the purpose of engaging in international banking and export financing.

Although the number of Edge corporations has increased steadily since the Act was "rediscovered" in the late 1950s, it has not been exploited by the small and regional banks it was intended to serve. The prime beneficiaries of the Edge Act have become the largest banks, which have increasingly made sophisticated use of the statute as a vehicle for foreign equity financing related to lending or investment policies of the parent bank, or for the acquisition of overseas banks and financial institutions.

Limitations on aggregate liabilities, the types of business open to Edge Corporations and tight reserve requirements have been among the factors constraining widespread use of the Act in support of foreign trade. However, significant changes in these provisions were made in the International Banking Act of 1978.¹⁵

The Export-Import Bank, established in 1934, and its programs—direct loans, financial guarantees, insurance and discount loans—are discussed in detail in Chapter 4 of this report.

Although the clear intent of the majority of U.S. export promotion programs and institutions is to provide assistance to small and inexperienced exporters, they have persistently failed to do so. Among the 25,000–30,000 existing exporters, the 95% who are small and medium sized still account for only 15% of total exports. The Department of Commerce estimates an additional 20,000–30,000 small companies could export successfully, but have not done so, hampered by inexperience or unawareness of available opportunities.

In many respects, one of the most important impediments to the active involvement of smaller companies in exporting is the inconsistency and confusion surrounding the few assistance programs offered by the government to help exporters. One clear example of this is the Domestic International Sales Corporation (DISC) Program, established in the Revenue Act of 1971, which offers exporters deferred taxes on export income.

Although there is evidence small company exporters have increasingly made use of DISC provisions since 1971, over 60% of total DISC benefits have gone to parent corporations with more than 250 million in assets. A Treasury Department analysis of the program concluded the legal and accounting costs of complying with the complex DISC legislation inhibited small company participation in the tax benefits. Subsequent reductions in the program, and the possibility of its rescission have further hindered potential small firm users.

Small firms are similarly ill-equipped to deal with the bureaucratic requirements of the export license application process or to whether attendant uncertainties and delays. They require special guidance in coping with other legislative and administrative problems, as well. Corporations with vast experience abroad and large legal staffs may successfully avoid entanglement with antiboycott, corrupt practices, human rights and environmental protection regulations which intimidate or ensnare smaller firms. Inexperienced firms, whether large or small, often perceive these barriers as insurmountable.

Despite recent efforts of the Department of Commerce to focus its support activities on small and inexperienced exporters, foreign trade remains the province of the largest U.S. corporations. Significant export expansion requires involving a much broader segment of the American business community in exporting, and will depend upon a more consistent and supportive U.S. Government export policy.

CHAPTER 7.—U.S. High Technology Exports¹⁶

Technology is a key factor in U.S. exports and has contributed strongly to U.S. export growth. Technology-intensive products, as

¹⁵ See Chapter 4 of this report.

¹⁶ Testimony on this subject is contained in part 7 of the Subcommittee's hearings and pp. 45–150 of part 8.

measured by R&D input, account for approximately 40 percent of U.S. exports. By contrast, R&D-intensive exports comprise only 28% of the total exports of Germany, Japan, France and the U.K. Our continued export competitiveness is clearly tied to our comparative advantage in technological innovation and the production of high technology goods.

The development of advanced technology is dependent upon high levels of government and private R&D investment. However, government support has dropped over the past 15 years, and private sector expenditure has not increased sufficiently to offset this decline. Moreover, because the orientation of private sector R&D often differs from that of government funded research, these cannot be viewed as interchangeable sources of support. Whereas private R&D tends to be market-oriented with a short to medium-term payoff in view, only the government is a significant investor in long term, basic research.

Spending by both the Federal government and business on R&D performed within industry is most closely related to export competitiveness. Although industry funding of this "industrial" R&D has averaged a 3.8% annual gain in real terms since 1966, the government's share has declined an average 5.5% per year, and overall levels have barely kept up with inflation. Research performed by industry for government agencies such as NASA and DoD has traditionally been more "basic", yet it has led to some spectacular commercial applications—the wide-bodied jet and integrated circuit technology are just two such spinoffs.

U.S. investment in R&D as a percentage of GNP has declined 25% over the last 15 years,¹⁷ while foreign competitors have steadily increased their R&D levels. The U.S. still leads, of course, in total R&D outlays, but Japanese and German support for R&D as a percentage of GNP has equalled that of the U.S. Moreover, foreign R&D tends to be strongly oriented towards the development of commercially marketable, and particularly exportable, products. Our high-technology exports are still a strong factor in our overall export performance, but our positive balance in such goods is diminishing. Statistical studies which show a significant correlation between R&D spending and export levels portend poorly for future U.S. exports if R&D spending in this country continues its relative decline.

There is evidence that private sector R&D is inhibited by unfavorable tax provisions and government regulatory actions. R&D investment—especially in basic research—is a high risk venture and a function of anticipated returns balanced against costs. If various legislative constraints (pollution controls, etc.) reduce the likelihood of payoff and if tax incentives are as good or better for other investments (such as advertising) businessmen may invest less in R&D because there are more attractive alternatives.

Foreign governments, recognizing the importance of basic research, seek to minimize disincentives. Not only do they provide substantial direct funding for commercially oriented R&D, they allow firms to pool resources in cooperative research efforts. U.S. anti-trust laws, which by and large prohibit such activity, may adversely affect our international competitive position. Collaborative efforts by U.S. firms may

¹⁷ It should be pointed out that this statistic distorts the case slightly, because GNP is growing faster in the service sectors, which are less R&D intensive.

be more than a good idea; they may be indispensable in order to reverse declining U.S. export competitiveness.

Export of high technology final products should be encouraged because of the immediate and long-term positive impacts on employment and the balance of payments. Exports of R&D-intensive equipment used in the production of final products, when the manufacturing know-how already exists in other countries, should also be encouraged.

A central U.S. Government department responsible for export expansion, domestic industrial growth and maintenance of our long-term innovative advantage might provide the mix of expertise, flexibility, control and perspective necessary to move exports rapidly when desirable and restrain them sensibly when it is in our long-term interest to do so. The United States Government should at minimum seek to establish a basic framework within which business can move quickly and confidently. Firms must be able to plan over the long-term, knowing that those elements of the cost picture determined by government will not increase during the development stages of projects. As the situation now stands, we are losing our competitive position in high technology trade, and uncoordinated Federal Government policies make it difficult to remedy the situation.

CHAPTER 8.—FOREIGN BARRIERS TO U.S. EXPORTS

Rising protectionism has over the last three years alone caused an estimated \$50 billion decline from world trade potential.¹⁸ The United States' share of this loss has been disproportionately high; according to a recent Department of Labor study over 424,000 jobs and \$7.5 billion in export sales have been blocked by foreign tariff barriers on non-agricultural products.¹⁹ Put another way, elimination of these tariffs could reduce unemployment by 12.5% and increase exports to our major trading partners by 21%. In Ambassador Wolff's words, "... codes of behavior that will accord to the U.S. the same degree of openness in foreign markets *that we provide* in the U.S. markets would clearly yield major benefits for U.S. exports."²⁰

Tariff barriers appear to be used strategically by foreign competitors to develop desired new industries rather than to protect inefficient old industries. For example, Japan has high tariffs on color film and computers. In the case of color film—years of protection have enabled Japan to grow into Kodak's strongest competitor. In the computer field, high tariff walls have been combined with large-scale government funding for R&D and "buy national" procurement to foster the development of an indigenous Japanese computer industry, now ready to penetrate and perhaps ultimately sweep world markets as the Japanese consumer electronics industry already has.

Despite progress in "tariff liberalization" during the Kennedy Round, the problem of non-tariff barriers, which is now perceived as more serious than tariff barriers for many U.S. exports, did not receive sufficient attention. An extraordinary variety of non-tariff barriers exist. Some are intentional, some unintentional and many impossible to definitively categorize. Bourbon (from grain) is considered

¹⁸ See *Export Policy* hearings, Part 8, p. 2, Testimony of Alan W. Wolff, Deputy Special Representative for Trade Negotiations.

¹⁹ See *Export Policy* hearings, Part 8, pp. 18-19.

²⁰ *Op. cit.*, p. 19.

injurious to health in France and therefore cannot be advertised, while Cognac (from grapes) is healthy and can be. The most common non-tariff barriers include government procurement policies, regulations, standards, customs procedures, border tax adjustments, quantitative restrictions and direct or indirect export subsidies.

Government procurement is relatively open in Germany and the U.S., but in most foreign countries domestic suppliers are given significant preferences. In many nations government procurement practices are more a matter of tradition than policy—buying foreign made goods is viewed as disloyal.

Japan concentrates most trade in the hands of a few trading companies. Intimate business/government relations allow for unwritten import-reducing policy actions. In the developing countries “discretionary” import licensing is widely used and abused. In the non-market economies, state trading companies select imports as well as exports without necessarily basing their actions on relative prices.

The trade barriers presented by product standards and regulations are similarly difficult to deal with. Inspection for health certificates, for example, may be required according to a given country’s laws *during the production process*—amounting to a total barrier to trade.

Border tax adjustments are considered by our electronics industry to be “the most pervasive and strongest of trade barriers erected against (its) products.”²¹ According to testimony, the problem is not being addressed in the current MTN negotiations.

It will take vigilance and strong bargaining just to maintain our world export potential in the face of these subtle and sophisticated barriers. Remedies outside of the MTN are difficult to perceive. One witness could only suggest that ²² Congressmen individually be firmer in talking to foreign visitors. The U.S. must not lose sight of the basic strength of its competitors—a more cohesive attitude towards exports with close government/business cooperation. Ambassador Wolff suggested should the negotiations fail, “we as negotiators have no reason to oppose retaliatory procurement policies, an expansion of Buy America domestically.”²³

Protectionist measures tie resources to less productive uses, restrict growth of productive sectors, and entail high costs for the consumer in the form of reduced choices and increased prices. They additionally tend to transmit recession, divide the world politically and contribute to general stagnation. The potential gains from freer world trade are immense, and far outweigh the hardship and dislocation caused particular domestic industries and geographic areas. However, unless adequate adjustment assistance is provided, formidable domestic political pressures can block trade liberalization efforts.

The success of the MTN package may depend upon a stronger U.S. bargaining position when faced with foreign violations of the new rules of conduct. A vast array of U.S. export support measures, either in effect or available if needed, would strengthen the U.S. negotiating position. Instead of retaliating with trade restrictions which raise import costs and hurt American consumers, the U.S. could be in a position to respond with export incentives which expand trade and create U.S. jobs without inflation.

²¹ *Op. cit.*, p. 32.

²² *Op. cit.*, p. 12.

²³ *Op. cit.*, p. 13.

CHAPTER 9.—RECOMMENDATIONS

The United States is awakening slowly to the fact that U.S. competitiveness in world markets is slipping. Not only Japan and the Western European countries, but also the developing countries of Latin America, Asia and Africa, are becoming strong competitors for U.S. producers across the full range of industrial and agricultural products and services.

Floating exchange rates alone cannot restore U.S. trade competitiveness. Nor can the United States afford to permit the international value of the dollar to erode indefinitely; the cost in domestic inflation, capital outflow, OPEC oil price increases and declining international confidence in the United States would be intolerable. As long as the dollar is the sole reserve currency and its value is uncertain, levels of international trade will be diminished. A strong national export policy is needed to strengthen the dollar as well as reduce the trade deficit.

The Subcommittee recommends the following actions: (1) organize the Executive branch to conduct a co-ordinated, forceful U.S. export policy; (2) facilitate organization by U.S. industry and agriculture to expand exports; (3) redirect and expand existing export promotion programs; (4) provide efficient tax and non-tax incentives for research and development and innovation, as well as exports, by U.S. industry and agriculture; (5) expand export financing to meet foreign competition; (6) negotiate reductions in foreign barriers to U.S. exports; and (7) reduce U.S. Government restrictions and disincentives imposed on U.S. exports.

EXECUTIVE BRANCH ORGANIZATION TO SUPPORT EXPORTS

The United States alone among the major trading countries has no single government agency with authority and responsibility to advance its trading interests. Other countries rely upon trade ministries to help their exporters investigate markets abroad, develop new export products, coordinate export bidding, arrange subsidized financing, insurance and shipping and bargain with foreign governments to assure market access.

Two approaches are possible to organizing the Federal Government to support exports. A new Department of Trade incorporating most trade-related government activities could be established, or an Office of International Trade could be established in the White House with authority to orchestrate the trade-related actions of all government agencies.

Creation of a Department of Trade need not entail additional Cabinet posts nor additional expenditures. The Office of Special Trade Representative, a Cabinet office, could be merged with the trade functions of the Departments of Agriculture, Commerce, State and Treasury to create a new department which could absorb the International Trade Commission and Export-Import Bank as well.

An alternative would be to expand upon the STR's Office, giving it authority not only over trade negotiations, but also to coordinate export promotion and trade disputes. The unhappy experience of the Council on International Economic Policy may have unduly discouraged consideration of this alternative. What CIEP lacked in statutory authority and support from the President are not defects inherent in

the concept of a White House office to manage international trade policy.

The International Finance Subcommittee has not held hearings on possible reform of executive branch organization to support exports, but its export policy hearings do point clearly to the need for U.S. exporters to receive more centrally co-ordinated U.S. Government support. It would appear particularly useful to merge the system of commercial officers provided by the Department of State with the system of export promotion operated by the Department of Commerce. A career service in international trade should be established even if no other reorganization steps are taken. International trade specialists of the highest caliber are more likely to be attracted and retained by a career service which offers rotating assignments abroad, in Washington, and in U.S. field offices.

ORGANIZING U.S. INDUSTRY AND AGRICULTURE TO EXPORT

United States policy has long been inconsistent toward organizing U.S. industry and agriculture to meet competition in foreign markets. U.S. antitrust law applies beyond U.S. borders to prevent combinations which could restrain trade within the United States. The Webb-Pomerene Act of 1918, authorized the formation of export trade associations so long as they did not reduce competition within the United States. The purpose of Webb-Pomerene was to enable U.S. exporters to compete more effectively against foreign cartels. However, the vague wording of the Act and narrow interpretations by the Justice Department, the Federal Trade Commission, and U.S. Courts have discouraged formation of export trade associations.

The Webb-Pomerene Act could be revised to expand the scope of permissible activities by export trade associations; services such as engineering, construction, insurance and finance, could be included. The Justice Department could be required to issue clear guidelines and offer advisory opinions on interpretation of the Act. The Commerce Department could be directed to assist and encourage the formation of export trade associations. U.S. exporters could be explicitly permitted to form consortia to bid on major foreign projects abroad, as their foreign competitors are permitted to do.

But Webb-Pomerene may be too weak a reed on which to rely for organizing U.S. exporters. The United States needs trading companies able to organize the exporting efforts of small and inexperienced U.S. firms, to conduct marketing on a global basis and absorb exchange rate fluctuations, just as Japanese and Korean trading companies do. Anti-trust law should be modified as necessary to permit formation of such trading companies. Informal interpretation of anti-trust law will not suffice—most firms will not take even a small risk of incurring criminal penalties, nor should they. Grey areas in anti-trust law are minefields for the unwary; clearly demarcated boundaries are needed.

Export trading companies should be free to market goods and services around the globe and their profits should be eligible for tax deferral, that is, not be taxed until distributed in the United States. Only with such freedom of maneuver can U.S. producers take on the Japanese trading companies and bidding consortia organized by European

governments. The United States should continue international efforts to reach agreements restricting export cartels, but U.S. exporters and the U.S. economy can no longer afford to bear the full cost of foreign recalcitrance on anti-trust practice.

REDIRECTING AND EXPANDING U.S. EXPORT PROMOTION PROGRAMS

The Commerce Department has recognized that its export promotion efforts need to be targeted more toward new-to-export and new-to-market firms.²⁴ Smaller, less experienced firms would be major beneficiaries of improved export promotion services because such firms have less access to private sector exporting information services and less opportunity to travel abroad and to meet potential foreign buyers. Commerce has developed a strategy for redirecting its services to better meet such objectives, but funding levels are inadequate at present to permit significant improvement in export promotion activities. Congress should appropriate sufficient funds to the Commerce Department for fiscal year 1980 to enable the Department to carry out an expanded and reoriented export promotion program. Commerce should give greater attention to exports of services, which promise to be a growing portion of U.S. exports. U.S. service industries have special needs by way of export support, and Commerce should be organized to meet those needs. Commerce should provide loans to small firms and export associations to cover initial marketing costs in new export markets and for new-to-export companies. Repayment would be based upon export sales. The Commerce Department should work more effectively within the United States through its District Offices and State and local trade and economic development offices to reach companies with export potential but lacking export experience. Both at home and overseas Commerce should concentrate its efforts on new exporters and new, rapidly growing markets.

Business has a responsibility to provide for self-education, as well. The professional business associations have given little attention to export education for their members. Experienced industrial firms and banks should conduct programs through their subsidiaries and correspondent banks to deliver exporting assistance to firms outside the major cities. If relations between Government and business were more cooperative, instead of adversarial, the Commerce Department, Export-Import Bank, Treasury Department and Federal Reserve Board would join with the business associations in fostering and conducting an export expansion drive.

PROVIDING EFFICIENT INCENTIVES FOR R. & D. INNOVATION, AND EXPORTS

Tax incentives should be used to stimulate higher levels of research and development than would otherwise occur in our "maturing" economy, and to encourage producers to make the extra effort required to enter foreign markets. Tax incentives may also be justifiable to enable U.S. producers to match European and Japanese competition in third country markets as long as competing countries continue to provide significant tax incentives to their exporters.

²⁴ See "Export Promotion Strategy and Programs", pp. 198-429 of *Export Policy* hearings, Pt. 6.

The United States has three tax policies which encourage exports: DISC, deferral on foreign corporate earnings, and Section 911 tax relief for certain personal income earned abroad. DISC may not be a particularly efficient incentive but exporters believe DISC is essential to profitable exporting. Removal of DISC without providing a superior tax alternative could lead to a large reduction in U.S. exports. Accordingly, DISC should be retained until another, more efficient tax incentive can be put into effect.

The export benefits of DISC could be expanded in two ways. Smaller companies not directly involved in exporting but supplying parts and components used in exports can set up DISCs to sell to the exporting firms. In this way the benefits can trickle down to smaller businesses. Use of DISC in this way is permissible at present, but has received little encouragement from the Government. Small firms may be unaware of this opportunity and may also be discouraged by the requirement that DISCs be formally incorporated. The incorporation requirement seems a needless expense for firms to incur.

Second, the money flowing into DISCs could be recycled to finance additional exports if it could be re-lent to other firms or foreign purchasers. The Export-Import Bank could use its resources in parallel with DISC funds to multiply the export punch of the DISC incentive.

DISC violates GATT rules and may come under further pressure as a result of the subsidies code being drafted in the Tokyo Round. If DISC is barred, Congress should study alternatives, including a value-added tax with rebates for exports. The VAT system is widely used abroad, is consistent with GATT rules and could be used to fund a portion of social security benefits. VAT is often criticized as being inflationary as well as regressive in impact; however, these effects could be mitigated if VAT were adopted in conjunction with other tax changes. Many foreign countries have adopted VAT systems within the past two decades and their experience should help Congress determine what costs and benefits VAT would entail for the United States.

Another alternative to DISC would be to defer taxation of export sales abroad attributed to an export sales subsidiary. At present the United States attempts to restrict use of such "tax haven" arrangements by requiring such income to be reported as current earnings. The U.S. practice reduces the export incentive effect of the general deferral of taxation on income earned abroad, contrary to the practice of other governments. To be most effective, U.S. policy should encourage the formation and use of export sales subsidiaries by consortia of U.S. firms.

Section 911 of the Internal Revenue Act provides exemption for some forms of personal income and expenses by U.S. citizens working abroad. Favorable tax treatment is an important export incentive in the engineering and construction industries, which in turn stimulate additional U.S. goods exports. The effect of Section 911 on U.S. exports requires careful examination and the tax incentive should not be reduced prematurely.

Over the long term, the most significant way to promote exports is to improve U.S. industrial competitiveness by encouraging innovation and productivity growth. The important circularity of causation between trade and domestic industrial growth should be more widely

recognized, and U.S. industrial and export policies should be correspondingly integrated. The President's annual Economic Report should contain a section specifically reviewing developments in capital formation and research and development, with evaluation of the export implication of such developments.

In particular, the pivotal importance of innovative small businesses and research-intensive industries should be acknowledged. Tax policies and securities regulations which have seriously affected the rate of formation of new ventures need reconsideration, and incentives used in a number of foreign countries to stimulate R. & D. should be investigated.

For example, several Western countries, including Canada and West Germany, allow immediate write-off of research-related capital investments. The West Germans also permit R. & D. venture companies to depreciate up to three times the original investment in the venture before being subject to corporate income taxation.

An investment tax credit for research and development expenditures on "intangibles" could stimulate higher levels of R. & D. Another possibility would be to increase the existing investment tax credit for capital expenditures that are research-related. Alternative incentives could involve accelerated depreciation for capital equipment embodying new technology or capital with research and development uses.

Industrial innovation is hampered by barriers to cooperative research imposed by the government in the name of competition. The extent to which current antitrust restrictions and Justice Department policies inhibit industry from collaborating to make optimal use of R. & D. resources should be reassessed. Indeed, it is time to move beyond the traditional adversarial government/industry relationship and examine the possible gains from cooperative research institutes, funded by business and government, with university participation. Such three-way cooperation has been successful in basic research efforts in the past; work in a broader range of areas, including the development of commercial technologies, should be explored.

More effective commercialization of existing federal research would also be beneficial for exports. Greater industry involvement in the selection and management of government funded projects could help insure that the results are commercially viable. Restrictive agency patent policies, conflict of interest rules and other impediments to innovators working on federal contracts demand reconsideration.

Finally, the United States must awaken to the fact that technology transfer is no longer a one-way street. In an age where two-thirds of all research and development takes place outside the United States, our channels for acquiring foreign technologies and scientific information are woefully inadequate. The United States has, relatively, far fewer science attachés abroad than do European countries, Japan and the U.S.S.R. Moreover, the activities of U.S. science attachés are largely oriented to the administration of science agreements rather than the search for foreign-developed advanced technologies. The links between science attachés and U.S. firms operating abroad are weak, where they could be immensely valuable. There is little sense of the potential commercial gains from encouraging and assisting U.S. firms to obtain foreign technologies. Bolstering the commercial awareness of science

attachés and strengthening the technological awareness of commercial attachés in order to improve the two-way flow of technology are far more promising strategies than trying to limit the outflow of American technology.

EXPANDING EXPORT FINANCING

The Export-Import Bank and the Commodity Credit Corporation are the primary U.S. government institutions providing financing for U.S. manufactured and agricultural commodity exports respectively. Both face political as well as economic constraints on funds and the markets in which they can operate—constraints not faced by corresponding institutions in competing countries.

Eximbank is required to obtain approval in an appropriations Act each year for its level of direct lending. The Office of Management and Budget has tended to regard Eximbank as a drain on the Federal budget despite the Bank's essential role in expanding U.S. exports, and thereby, profits, employment and Federal tax revenue. The budget proposed for fiscal year 1980 would permit the Bank to provide only one-third of the direct loans for U.S. exports expected to be requested from the Bank. Because Bank support is the determining factor in two-thirds of the export sales it supports, and because the value of the exports supported averages twice the value of the Bank's direct loans, as much as 10 to 15 billion dollars in U.S. exports may be foregone due to the ceiling imposed on Eximbank activity in fiscal year 1980 by OMB.²⁵ Congress should increase Eximbank's direct loan authority for fiscal year 1980 to 12 billion dollars from the 4 billion level approved by OMB. Congress should also review the budgetary treatment of the Bank to determine whether such treatment accurately reflects the fiscal impact of Bank activities.

Eximbank policies should also be changed to increase the support it can provide for U.S. exports. The Bank should end its practice of returning an annual "dividend" to the U.S. Treasury. No public purpose is served by shuffling U.S. Government funds from one account to the other. Eximbank need not perpetuate a fictional financial independence. All the Bank "profits" should be added to Bank reserves available to meet possible default by foreign purchasers.

Eximbank should also consider adopting some of the export-supporting programs offered by foreign official credit agencies: performance bond guarantees, financing for prefeasibility studies and increased local and foreign content financing. The Bank should abandon its 5 million dollar threshold for direct credits and financial guarantees, because the threshold limits access to the Bank by small exporters. The Bank should consider joint export financing activities together with counterpart institutions in other exporting countries.

Congress should make Eximbank and CCC support available, subject to periodic review, to all countries with which it is U.S. policy to encourage trade. Large potential markets for U.S. goods and services are being conceded to foreign competitors because Eximbank and CCC cannot assist U.S. exports to certain countries.

²⁵ Ten billion dollars in lost exports would represent 20 billion dollars in lost GNP, 4 billion dollars in lost tax revenue, and 400,000 lost jobs.

Another area of growing competitiveness is the provision of low-interest, long-term loans to poorer developing countries for capital goods imports. Except in rare instances, Eximbank cannot afford to match foreign credits to developing countries which combine concessional development support with export financing, so-called "mixed credits." In addition, many developing countries would like to purchase goods and services from the U.S., but cannot meet the Bank's normal credit standards.

To meet this dual challenge, Congress should authorize a new Bank program to provide export financing for sales to countries with per capita income below \$1,000. Financing could be provided on normal Bank terms; however, the Bank could offer such terms as necessary to match foreign competition. An initial authorization and appropriation of \$500 million in capital should be provided for the program.

Private financing of U.S. exports will be assisted by changes incorporated in the International Banking Act of 1978 which liberalize usage of Edge Act Corporations for export financing. The Federal Reserve Board should promptly issue revised regulations putting the new Edge provisions into effect, and the Commerce Department together with the Treasury Department and the Federal Reserve Board should launch a program to educate U.S. businesses in the formation and use of Edge corporations to finance exports.

NEGOTIATING REDUCTIONS IN FOREIGN BARRIERS TO U.S. EXPORTS

The export implications of the trade agreements negotiated at Geneva should be reviewed thoroughly by the Congress. The Subcommittee on International Finance will hold hearings on the agreements later this year.

Many of the non-tariff barriers which thwart U.S. exports will not be removed automatically by adoption of the trade agreements and the accompanying codes of behavior. A continuing effort to compel implementation of the codes will be required, and many disputes will arise which can only be resolved through bilateral negotiation. Congress should give particular attention to the mechanisms for implementing the trade agreements and insuring compliance with the codes.

Agriculture is the sector which suffers most from foreign non-tariff barriers and has the greatest long-term promise for U.S. export growth. The United States Government should increase its pressure on foreign governments to admit U.S. agricultural products, if necessary, by linking U.S. action on manufactured goods imports to foreign actions affecting U.S. agricultural exports.

Congress should re-examine agricultural policy to consider replacing a system of price supports and set-asides which pays farmers not to produce with a system of target prices and cash payments which encourages food production, holds down food prices, and stimulates agricultural exports. Meat is the most efficient means for the United States to provide protein to the rest of the world. Grain-fed meat exports would benefit from lower feed costs under a target-price system, and so would U.S. consumers.

The Commodity Credit Corporation should be authorized and directed to serve as U.S. agent in grain sales to non-market economies.

CCC could match the deals arranged by the Canadian and Australian wheat boards.

When the Tokyo Round of trade negotiations is finally concluded, it will be time for another. The Tokyo Round negotiations open the doors to a series of new negotiations. Non-GATT members have trade barriers, too, which should be tackled in multilateral negotiations. Special trade facilitation committees may be needed to clear trade complaints arising under the proposed GATT codes. U.S. export incentives have a vital role both in helping U.S. industry and agriculture to fulfill the promise of the MTN package, and in insuring that other countries keep their part of the promise.

Congress should adopt a package of export-stimulating measures to accompany the trade agreements. United States producers should be given maximum encouragement to exploit the export opportunities expected to result from the reduction of tariff and non-tariff barriers.

REDUCING U.S. GOVERNMENT DISINCENTIVES TO EXPORTS

Exporters assert that the biggest incentive the United States Government could provide to exports would be to reduce the many export restrictions and disincentives it imposes. U.S. exporters face export controls, anti-trust, anti-bribery, human rights, environmental review and other restrictions not faced by their competitors. Congress should resist the impulse to restrict exports to countries whose internal or external policies do not meet U.S. standards and objectives, when restrictions would prove ineffective.

Testimony received by the Banking Committee suggested that unilateral efforts by the United States to exert economic leverage on foreign governments through export restrictions have generally been unsuccessful.²⁸ In many cases other countries have captured the export business and it is questionable whether U.S. foreign policy objectives have been advanced.

Congress should review the statutory and regulatory restrictions on U.S. exports to determine whether such restrictions accomplish purposes outweighing their economic cost. In many cases it may prove possible to design alternative approaches which serve U.S. moral and foreign policy concerns without sacrificing market opportunities. A place to begin is with revision in 1979 of the Export Administration Act.

Delays in export licensing decisions pursuant to the Act are a significant cause of U.S. export loss. Exporters should be informed of the specific reasons for license delays or rejections. Because U.S. licensing policy is often unclear, foreign purchasers come to regard the U.S. as an unreliable supplier. In areas of rapidly expanding technology, the control levels should be revised more frequently. Too often the Commerce Department responds to a rapidly evolving state of the art around the world only when deluged by license applications which should not have been required in the first place. If the Executive departments will not devise a more efficient way to provide essential monitoring and control without excessive disruption of U.S. exports, Congress must.

The restrictions in the Trade Act of 1974 and the Export-Import Bank Act on granting nondiscriminatory trade treatment and credits to communist countries should be amended to permit expanded trade

²⁸ See hearings on the *Use of Export Credits and Controls for Foreign Policy Purposes*, Committee on Banking, Housing and Urban Affairs, October 10 and 11, 1978.

and credits subject to periodic review by Congress and the President of relations with such countries.

The President's Executive Order requiring environmental reviews of many U.S. exports threatens to discourage exports without encouraging environmental protection. Regulations to be issued pursuant to the executive order should be subject to careful public scrutiny as provided in the Administrative Procedure Act. Agencies should pursue international efforts to encourage environmental protection to the maximum extent feasible rather than imposing unilateral environmental reviews. The President should revise his order to authorize U.S. Government review of the environmental effect in a foreign country of U.S. exports only upon the request of the foreign government, and to require consideration of foreign availability and the reputation of the U.S. as a supplier before proceeding with any environmental review pursuant to the order.

INTERNATIONAL FINANCE AND U.S. EXPORTS

Competitiveness will avail the United States little if the world is insolvent. The problem of financing economic growth throughout the world is beyond the scope of this study, but not beyond the scope of this subcommittee's interest. Global institutions of finance and trade are needed as urgently as a U.S. export policy. The Bretton Woods system has been seriously undermined, but the world awaits U.S. leadership to develop a replacement. The world monetary order should be expanded, as well as stabilized. In addition, the United States should lead in the creation of new global institutions to deal with the resource problems of an interdependent world and the economic development of the poorest countries.

These objectives intertwine. Developing countries today purchase more of the U.S. capital goods than do Europe, Japan and the East Bloc combined. These countries also represent our fastest growing export markets. An increased commitment to development assistance and international scientific and technological cooperation should be made, not out of a sense of short-term political expediency, but with the conviction that these directions unchallengeably advance the long-term economic and political interests of the United States. The potential is clear, but the U.S. response is not. We must act before these goals are preempted by policies too narrowly conceived to serve an interdependent world.

ADDITIONAL VIEWS OF SENATORS WILLIAMS,
CRANSTON AND TSONGAS

We want to commend Senator Stevenson, chairman of the Subcommittee on International Finance, for the thorough and probing hearings he held last year on U.S. export policy. The subcommittee's report on these hearings will provide invaluable guidelines as the Congress explores ways to improve U.S. export performance.

While we generally concur with the findings detailed in the report, we cannot endorse all of the recommendations contained therein.

In particular, we do not agree with the recommendation that the provisions of the Trade Act of 1974 applicable to the granting of non-discriminatory trade treatment to communist countries be amended. We believe that sufficient authority to expand trade and credits with nonmarket economy countries exists under the terms of section 402, also known as the Jackson-Vanik amendment. The President can, by exercising his waiver authority when necessary and advisable, achieve those objectives in accordance with the provisions of current law and with the concurrence of Congress. In our judgment, it would be both unwise and unnecessary to recommend at this time that the law be altered.

ADDITIONAL VIEWS OF SENATOR HEINZ

This report represents the substance of 11 days of hearings and submissions from both the Government and the private sector on export policy problems. As such it is both comprehensive and definitive on a subject which has increasingly become a focus of policy debate since the hearings were held last spring. As the monthly trade deficit figures were announced last year, each grimmer than the last, and as the dollar continued its dramatic decline, the Nation as a whole began to realize what members of this subcommittee have been saying for some time—that these events have had a serious adverse impact on our economy, most notably contributing significantly to inflation, and that one sensible means of dealing with the deficit is to increase our exports.

With some notable exceptions, the value and potential of exports have been unappreciated by many American businessmen historically used to relying solely on domestic sales. Exports represent a smaller proportion of our total economic activity than other industrialized countries, but an improvement in that performance inevitably rests upon convincing businessmen that the export market is lucrative from an economic point of view and viable from a practical point of view. That is, we must convince our businessmen that they can make money exporting and that the costs—both economic and bureaucratic—will not outweigh the benefits.

Realizing this change will depend on direct contact with individual entrepreneurs in order to make a persuasive case. Such persuasion, however, will be helped immeasurably by the substantive recommendations in this report. While I cannot endorse all the recommendations at this time, on the whole I believe they will do much to improve the exporting climate in the United States and put exports in their rightful place in our economy.

Of particular importance among the report's recommendations are the reorganization of the executive branch into a Department of Trade (whether it would be a Department of International Trade and Investment as Senator Roth conceived in his legislation, which I am cosponsoring, or some other approach is a question for separate study) and the streamlining of the bureaucracy, particularly our export licensing procedures, so that our own controls serve real policy purposes rather than simply tie our hands with red tape.

Interesting businessmen in exporting means both making it easy for them to get involved—as reorganization and streamlining could do—but also making it profitable for them. This means more effective incentives, through the Export-Import Bank so we can compete financially with other nations, and through tax incentives. Though a case can be made that DISC has been of only marginal help to smaller businesses and that most of the benefits have gone to larger established firms, it nonetheless is the best thing we have at the present time and thus has both a symbolic and substantive significance. Eliminating

DISC would be a clear signal to our exporting community that their activities really do not have a high priority in our economy. We can ill afford to send that signal at this time, although I am told that administration dislike of DISC has already created uncertainties about its future and therefore some reluctance to begin to use it. I do, however, agree with this report's conclusion that we can do better, and I urge prompt study both of proposals for a value added tax and the use of tax deferral by export sales subsidiaries.

The recommendations in this report add up to substantially more than the President's proposals, which have been accurately described as "modest." The Carter administration is clearly committed in principle to expanded export activity, but the limited nature of the President's recommendations show his reluctance to take the necessary practical steps, and pay the necessary costs, to achieve the objectives. It is a fact that incentives are going to cost money, that reorganization will intrude on bureaucratic fiefdoms, that streamlining our export licensing procedures will impinge upon other policy objectives, that more aggressive competition for export sales through more extensive Export-Import Bank activity may irritate our trading partners (largely the same ones, incidentally, that are dumping subsidized products in this country).

An effective export promotion policy necessitates a recognition of these facts and a commitment to bear their costs. Senator Stevenson and I, among others, are prepared for that and believe the overall benefits will outweigh these costs. I am concerned that the administration may believe it can accomplish the same thing on the cheap—through half steps that don't significantly change existing policies and relationships. This report should make clear both the importance to our economy of achieving the goals we have all agreed on and the possibility of meeting them through half measures.

ADDITIONAL VIEW OF SENATOR KASSEBAUM

As I did not participate in the hearings or study leading to the preparation of this report, I feel it would be inappropriate for me to either endorse its recommendations or refrain from endorsement. However, I do note that the report contains suggestions which will require committee action and I certainly look forward to the challenge of finding ways to improve American trade policy, particularly as it relates to the export of agricultural products.

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